

Message Text

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C O N F I D E N T I A L CARACAS 11140

EO 11652: GDS
TAGS: EIND EINV ELTN ETRD ECIN VE
SUBJ: VENEZUELAN AUTO INDUSTRY EXPANSION: GOV POLICIES
SEEN AS POTENTIALLY IMPEDING PROGRESS

REF: A. CARACAS 7929; B. CARACAS 8802; C. CARACAS 9102

CAUTION: PROPRIETARY INFORMATION INVOLVED

1. SUMMARY: REPRESENTATIVES OF GM VENEZUELA VISITED THE AMBASSADOR OCTOBER 10. GM IS CONCERNED BY THE LOSSES OF ITS VENEZUELAN OPERATIONS. THE COMPANY FORESEES DIFFICULTY IN INTERESTING PRIVATE SECTOR INVESTORS IN PARTICIPATING IN VENEZUELA'S PROJECTED AUTOMOTIVE SECTOR EXPANSION UNLESS GOV PRICE CONTROL POLICIES ARE CHANGED. GM IS NOT CONCERNED ABOUT FUTURE DIVESTITURE REQUIREMENTS, OTHER THAN DIFFICULTIES WHICH MIGHT BE POSED BY THE VENEZUELAN SUPERINTENDENT OF FOREIGN INVESTMENTS. GM IS NOT INTERESTED IN LICENSING OF ITS TECHNOLOGY. INTEGRATION OF THE ANDEAN PACT AUTOMOTIVE INDUSTRY FACES SOME OBSTACLES.

2. MESSRS. LANGELIER AND MOROWSKY OF THE WHOLLY-OWNED VENEZUELAN SUBSIDIARY OF GENERAL MOTORS CALLED ON THE AMBASSADOR OCTOBER 10 O DISCUSS GM'S VIEW OF THE VENEZUELAN AUTO INDUSTRY.

2. MR. LANGELIER STATED THAT GM'S VENEZUELAN OPERATION WILL LOSE MONEY THIS EYAR, AS THEY DID LAST YEAR. THIS WAS ATTRIBUTED IN LARGE PART TO THE GOV'S
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INFLEXIBLE POSITION ON PRICE CONTROLS. PRICES ARE

CONTROLLED ON SMALL AND INTERMEDIATE-SIZE CARS (SUCH AS THE CHEVROLET NOVA). THESE MUST BE SOLD AT PRICES WHICH DO NOT COVER GM'S COSTS. LUXURY CARS ARE NOT PRICE-CONTROLLED. HOWEVER, GM'S AGGREGATE PROFITS ON SALES OF THESE MODELS ARE INSUFFICIENT TO RECOUP LOSSES INCURRED ON SALES OF ECONOMY MODELS. THERE IS NO RELIEF IN SIGHT. GM VENEZUELA'S CONCERN ABOUT GOV ATTITUDES TOWARD FOREIGN INVESTORS IN THIS INDUSTRY IS HEIGHTENED BY THE DISPARITY IN THESE ATTITUDES WITH REGARD TO THE GOV'S TREATMENT OF VENEZUELAN SUPPLIERS TO GM VENEZUELA, AND OF RETAIL DEALERS OF GM CARS. BOTH OF THESE SUB-SECTORS ARE DOING VERY WELL FINANCIALLY. WHEN, ON OCCASION IT HAS BEEN POINTED OUT THAT THE MINISTRY OF DEVELOPMENT HAS AWARDED GM'S VENEZUELAN COMPONENT SUPPLIERS PRICE INCREASES WITHOUT ALLOWING GM TO MAKE CORRESPONDING ADJUSTMENTS IN THEIR SELLING PRICES, THE GOV HAS ADVISED GM VENEZUELA THAT GM SHOULD LOOK TO THE NORTH AMERICAN MARKET FOR THEIR PROFITS.

4. GM IS CONSIDERING SUBMITTING A PROPOSAL TO PARTICIPATE IN THE GOV'S PROJECT TO EXPAND THE LOCAL AUTO INDUSTRY (REFTEL C) BUT IS CONCERNED THAT SEVERAL ASPECTS OF THE PROPOSED EXPANSION MAY RESULT IN AN UNTENABLE FUTURE FOR THE PRIVATE SECTOR PARTICIPANTS. THE COMPANY FEELS THAT IT WILL BE DIFFICULT IF NOT IMPOSSIBLE TO ATTRACT THE \$200-\$400 MILLION IN CAPITAL REPRESENTING THE PRIVATE SECTOR CAPITAL PARTICIPATION IN THE \$400-\$800 MILLION PROJECT UNLESS THE GOV ADOPTS A MORE REASONABLE POSITION (ESPECIALLY WITH REGARD TO PRICE CONTROLS). MR. LANGELIER FEELS THAT SOME OF THE MORE DIFFICULT PROBLEMS STANDING IN THE WAY OF CONTRACT AGREEMENT WILL HAVE TO BE RESOLVED THROUGH BILATERAL NEGOTIATION RATHER THAN THROUGH THE TENDER PROCESS.

5. SPECIAL CONCERN WAS VOICED BY THE GM VENEZUELA REPRESENTATIVES ABOUT THE NEARLY ABSOLUTE POWER VESTED IN THE VENEZUELAN SUPERINTENDENT OF FOREIGN INVESTMENT (REFTELS B & C) FROM WHICH THERE PRESENTLY APPEARS TO BE NO MEANS OF APPEAL.

6. ASIDE FROM THE POSSIBILITY OF INTERFERENCE ON THE PART OF
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THE SUPERINTENDENT OF FOREIGN INVESTMENT GM VENEZUELA IS NOT CONCERNED BY THE PROSPECT OF DIVESTITURE. IN FACT, GM VENEZUELA FEELS THAT IF THEY ARE ABLE TO ATTRACT SUBSTANTIAL PRIVATE VENEZUELAN CAPITAL PARTICIPATION, THAT THE GOV IS LIKELY TO BE MORE SYMPATHETIC TO THE INDUSTRY'S FINANCIAL CIRCUMSTANCES. AN UNDESIRABLE SITUATION WOULD BE EXPECTED TO ARISE FROM AN EQUITY SHARING LIMITED TO FOREIGN FIRMS AND THE GOV. GM HAS BEEN ADVISED TO SEEK PRIVATE

SECTOR PARTICIPATION FROM SOURCES OTHER THAN TRADITIONAL VENEZUELAN INVESTOR GROUPS.

7. GM VENEZUELA IS NOT NOW INTERESTED IN PARTICIPATING IN THE LOCAL AUTOMOTIVE INDUSTRY AS A LICENSOR. REGULATIONS LIMITING ROYALTY PAYMENT TERMS TO FIVE YEARS AS WELL AS PROBLEMS WHICH MIGHT RESULT FROM LOSS OF CONTROL OF GM PROCESSES AND TECHNIQUES INCLINE THEM AGAINST SUCH AN ARRANGEMENT.

8. IN RESPONSE TO THE AMBASSADOR'S QUESTION ABOUT THE ANDEAN PACT'S IMPLICATIONS FOR THE VENEZUELAN AUTO INDUSTRY, MR. LANGELIER STATED THAT DIFFERENCES IN LABOR RATES AND IN NATIONAL OBJECTIVES FOR DOMESTIC CONTENT OF THE THREE COUNTRIES HAVING AUTO INDUSTRY ASSIGNMENTS WILL MAKE RATIONALIZATION OF THIS INDUSTRY'S GROWTH DIFFICULT. BOLIVIA'S PLANS FOR AN ENGINE FACTORY WERE CITED AS ONE OF THE MORE EXTREME EXAMPLES OF AN ECONOMICALLY IMPRACTICAL APPROACH TO INTEGRATION.

9. THE EMBASSY INTENDS TO TALK TO OTHER U.S. AUTOMOTIVE FIRMS IN VENEZUELA TO ENABLE COMPARISON WITH GM'S VIEWS.

10. CAUTION: PROPRIETARY INFORMATION INVOLVED.
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